

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of

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| NOTICE OF SOUTH CENTRAL BELL |) | |
| TELEPHONE COMPANY OF ADJUSTMENT |) | CASE NO. 7774 |
| IN ITS INTRASTATE RATES AND |) | |
| CHARGES |) | |

ORDER ON REHEARING

On September 2, 1980, the Commission issued an Order in Case No. 7774, authorizing South Central Bell Telephone Company a revenue increase in the amount of \$36,956,000. Included in the revenue authorization was an increase in the amount of \$2,641,000 in the area of private line services and \$1,634,616 in wide area telecommunications services. As part of the private line services revenue increase, the Commission authorized \$122,998^{1/} in the area of telephone answering service channel facilities and \$172,000 in telephone answering service equipment.

On September 16, 1980, the Kentucky Telephone Answering Service Committee for Reasonable Rates (KTAS Committee) filed a motion for rehearing in the case. The Motion was based on the grounds that: (1) the telephone answering service equipment and private line rates prescribed in the Commission's Order were not fair, just, reasonable, equitable and non-discriminatory; and (2) South Central Bell's application in the case with respect to telephone answering service equipment particularly the 557B switchboard and Concentrator-Identifier arrangement and private line rates did not comply with the Commission's Order in Case No. 7314.

On September 22, 1980, South Central Bell (South Central) filed an application for rehearing in this case. The grounds of its petition were: (1) the revenue penalty of \$2,108,000 imposed due to service inadequacies was not supported by

^{1/} Includes \$51,211 applicable to signal control channels used in conjunction with Concentrator-Identifier arrangements and \$71,787 applicable to telephone answering service voice communication channels.

evidence and is contrary to the law; and (2) the finding of a 12.5% return on equity as fair, just and reasonable was inadequate and not supported by evidence.

On September 25, 1980, the Attorney General, Division of Consumer Intervention, filed a response in opposition to South Central Bell's application for a rehearing.

On October 6, 1980, the Commission granted rehearing on the points raised in the KTAS Committee's application. The Commission also granted rehearing on the penalty incentive adjustment imposed on Bell. The hearing was set for October 22, 1980, at 1:30 P.M., EDT, in the Commission's offices at Frankfort, Kentucky. The hearing was held as scheduled with the KTAS Committee, South Central Bell, the Attorney General and Kentucky Department of Finance participating. At the hearing, the Department of Finance urged reconsideration of the Commission's decision to increase the rates and time use allowances for wide area telecommunications services (WATS).

The KTAS Committee argued that the telephone answering service bureaus utilizing or desiring to utilize the 557B switchboard and Concentrator-Identifier equipment are being placed at unfair disadvantage. The Committee stated that this disadvantage is caused by the following:

(1) The 557B Switchboard is not actively manufactured; therefore, it is only available from existing South Central Bell inventory or through a special order.

(2) Although Concentrator-Identifier equipment is available from other suppliers on a competitive basis, such equipment is not compatible. Therefore, both items must be purchased from the same supplier. In the event the items are purchased from an independent supplier, South Central Bell will not allow the equipment to be located on its property. The telephone answering service bureau must, therefore, bear additional costs in order to use equipment provided from an independent company. Thus, anyone desiring to use 557B switchboards in conjunction with Concentrator-Identifier equipment, and/or to have the Concentrator-Identifier equipment at

South Central Bell's central office, must acquire the equipment from South Central Bell.

Having considered these arguments and all other evidence adduced at the re-hearing of this matter, the Commission is of the opinion and FINDS as follows:

(1) The telephone answering service signal control channel facilities (which were formerly a cost component of Concentrator-Identifier equipment rates and charges) are separable and quantity sensitive. Accordingly, those persons utilizing these services should bear the cost. To continue a rate structure under which some users subsidize others (i.e. the average or melded cost method) would be unfair, unjust and unreasonable. For this reason, the rates and charges set out in the order of September 2, 1980, with reference to telephone answering service signal control and voice communication channel facilities should be reaffirmed.

(2) The Commission agrees with the KTAS Committee's contention that telephone answering service bureaus utilizing or desiring to utilize the 557B Switchboard have no alternative to South Central Bell as a source of supply. The Commission is aware that the 557B Switchboard is not actively manufactured and that the equipment is available only from existing South Central Bell inventory or on a special manufacturing order basis. The Commission is also aware that although Concentrator-Identifier equipment is available on a competitive basis, South Central Bell-provided and independent company-provided equipment are not compatible. This requires telephone answering service bureaus to acquire Concentrator-Identifier equipment from either South Central Bell or from an independent supplier, in which event the equipment cannot be located on South Central Bell property. In effect, 557B Switchboards used in conjunction with Concentrator-Identifier equipment and Concentrator-Identifier equipment used in conjunction with the 557B Switchboard must be acquired from South Central Bell. It is the opinion of the Commission that these circumstances, along with the proposed increases in 557B Switchboard and Concentrator-Identifier equipment rates and charges without substantial evidence of increased investment or operating expenses, place telephone answering service bureaus at an unfair competitive disadvantage and permit South Central Bell to

unfairly coerce telephone answering service bureaus into the use of more sophisticated and expensive equipment. For this reason we find that the rates and charges set out in the order of September 2, 1980, for 557B Switchboard and Concentrator-Identifier equipment are unfair, unjust and unreasonable in that they discriminate against the users of such equipment. Therefore, said rates and charges should be rescinded. Although the \$172,000.00 in revenue adjustment required by our decision to rescind the increase to the KTAS Committee will slightly reduce South Central Bell's total annual revenue, it will not materially impair the operations of the Company. The \$172,000.00 revenue loss is less than $\frac{1}{2}$ of 1% of South Central's intrastate revenues, and it will have no appreciable effect on the returns found fair, just and reasonable in our order of September 2, 1980.

(3) Wide area telecommunications services (WATS) is essentially a discounted toll service, which has been competitively underpriced in the past. Our decision to raise the rates for this service is consistent with recent decisions of the Federal Communication Commission raising the rates for WATS service at the interstate level. The Kentucky Department of Finance's plea for reconsideration on this point is, accordingly, denied.

(4) The service commitments made by South Central do not comply with the Commission's Order in Case No. 7535 dated November 13, 1979. Therein, the Commission ordered that no applicant for regular new telephone service should have to wait more than one year to obtain that service. Therefore, our decision to impose a service penalty incentive adjustment on South Central Bell for failure to provide new service to applicants within a reasonable time period was a proper and reasonable exercise of this Commission's jurisdiction over all aspects of a telephone company's rates and service to the public. At the rehearing on this matter, South Central introduced no evidence on this issue that had not already been considered by the Commission at the time of its original order. For these reasons, the Commission reaffirms its imposition of the revenue penalty as contained in its Order of September 2, 1980.

IT IS THEREFORE ORDERED That the Commission's Order in Case No. 7774, dated September 2, 1980, with reference to rate increases for telephone answering service signal control and voice communication channel facilities be and it hereby is reaffirmed.

IT IS FURTHER ORDERED That South Central Bell's rates and charges for the 557B Switchboard and Concentrator-Identifier equipment shall be reduced to those in effect prior to the Commission's Order in Case No. 7774 dated September 2, 1980.

IT IS FURTHER ORDERED That South Central Bell shall refund to telephone answering service bureaus all revenues collected from 557B Switchboard and Concentrator-Identifier equipment rates and charges, resulting from the increase in rates and charges authorized in Case No. 7774 dated September 2, 1980. In addition, South Central Bell shall report the amount of the refund to the Commission within thirty (30) days from the date of this Order.

IT IS FURTHER ORDERED That within twenty (20) days from the date of this Order, South Central Bell shall file revised tariff pages with the Commission stating the rates and charges for 557B Switchboard and Concentrator-Identifier equipment herein Ordered.

IT IS FURTHER ORDERED That the Commission's revenue authorization in the area of telephone answering service signal control and voice communication channel facilities is reaffirmed and shall remain in effect.

IT IS FURTHER ORDERED That the Commission's revenue authorization in wide area telecommunications services is reaffirmed and shall remain in effect.

IT IS FURTHER ORDERED That the Commission's service penalty incentive adjustment is reaffirmed and shall remain in effect as originally ordered.

Done at Frankfort, Kentucky, this 31st day of October, 1980.

ATTEST:

Secretary

Commissioner Oaken concurring in part and dissenting in part:

I concur with the majority's decision to affirm our imposition of a service penalty incentive adjustment on South Central Bell. However, I must dissent from their decision to not allow the Company to increase the rates for its telephone answering service customers. The telephone answering service customers of South Central Bell have not had all of their rates increased since 1956, and it is simply unfair to Bell's other customers to exempt this group of customers from bearing their fair share of the Company's ever-increasing operating costs. The \$172,000 in revenue which has been denied to Bell by my colleagues' action today will eventually have to be recovered by the Company from its other customers, including residential. For these reasons, I respectfully dissent from the decision to rescind the previously-approved rate increase for the telephone answering service customers of South Central Bell.

Commissioner